PROTECT YOURSELF: IDENTITY THEFT HITS AUTO DEALERS

Identity theft should be a major consideration for auto dealers. Because of the nature of auto sales—with high priced transactions involving third-party lenders and vehicle registrations with the government—dealers collect and combine a large amount of private and personal information about their customers and prospects. From the big chains down to single point stores, this has led to problems at all levels.

With identity theft so often in the news, most people are familiar with the concept. It is considered identity theft when someone uses your personal information such as name, Social Security number, or credit card information without your permission in order to commit fraud or other crimes.

Identity theft is a nightmare for those individuals affected. According to a 2003 study by California State University at Sacramento and the Identity Theft Resource Center of San Diego, it requires an average of 600 hours to straighten out the mess and can take up to 10 years until everything is resolved.

The true size of the identity theft problem is staggering. According to the FTC, over 10 million Americans are victimized annually and it has been the leading consumer fraud complaint over the last five years. The cost to businesses in 2002—the most recent year the FTC has research for thus far—was almost $50 billion dollars. The cost to consumers in 2002 was approximately $5 billion.

In one example, an Infiniti dealer in San Francisco, California was burglarized last April, but the thieves were not looking for cash or cars. They went into an unlocked file cabinet and stole 57 customer transaction files, which contained personal information, including credit reports, drivers license numbers, credit card information, and Social Security numbers. Within a few months, at least 15 of those customers reported to California police that someone tried to steal their identity.

In the case of a large Pennsylvania dealer, confidential information of more than 150 customers was used to obtain about $4 million in fraudulent loans. Soon after, the dealership suddenly closed. The person found responsible was the business manager of the store, who was also the grandson of the founder and son of the current dealer principal. The case ended with a $2.45 million dollar class action settlement against the dealer last year.

There are more and more examples of identity theft occurring at dealerships every day. But until it happens at your store, it is hard to truly understand the impact and problems associated with it.

There are two categories of problems that affect the bottom line for dealers: losses that come from dealing with identity thieves; and potential liability from failing to prevent identity theft, including compromising your customer and prospect data.

Many consequences can result from these two problems. First, there are the obvious financial losses—including obligations to lenders, losses from stolen vehicles and parts, and the financial liability to its victims of identity theft.

Civil penalties can also be levied against the dealer—corrective actions, sanctions, and FTC fines of up to $11,000 per day. If you add the inevitable problems that arise with the government, manufacturers and lenders, as well as the resultant rise of insurance premiums and increased costs of doing business, the expense greatly increases. Once you factor in the loss of customer trust and damage to your reputation from negative public relations, you have a pretty grim picture.

To help prevent identity theft, as well as to ensure compliance with the Gramm-Leach-Bliley Act, a dealer should have an Information Safeguards program in place. Periodic testing will make sure it is operating satisfactorily. All facets of dealership operations and related processes need to be considered—from the "ups" log to the test drive, the sales desk to the F& I office, and all other areas, including parts and service. A documented, systematic approach to the gathering, handling, and storing of confidential customer information should also be in place.

In addition, the culture of your dealership should support the Safeguards program. The integrity and participation of every employee is necessary to stay compliant and properly protect the information. All personnel need to be appropriately trained and accountable for their part in the process.

Your dealership needs to be aware of the growing issue of identity theft, as well as how to prevent it. Between the problem itself, and the downside of non-compliance with the regulations meant to combat it, being caught unprepared can be disastrous.

For more information or assistance in implementing a Safeguards program, contact your local ATA member firm.

TAX TIP

FOUR NEW TAX CREDITS FOR ALTERNATIVE MOTOR VEHICLES

The Energy Act signed into law on August 8, 2005, provides an alternative motor vehicle credit, which consists of the sum of the following four credits:

(1) the new, qualified fuel cell motor vehicle credit;
(2) the new, advanced lean burn technology motor vehicle credit;
(3) the new, qualified hybrid motor vehicle credit; and
(4) the new, qualified alternative fuel motor vehicle credit.

The Act also accelerates the sunset of the deduction for certain clean fuel vehicles and clean fuel property so that it is now unavailable for property placed in service after 2005.

In general, the alternative motor vehicle credit is allowed to the vehicle owner, including the lessor of a vehicle subject to a lease, in the year the vehicle is placed in service. A vehicle must be used predominantly in the U.S. to qualify for the credit. Any deduction otherwise allowable under Code Sec. 179A is reduced by the amount of the credit allowable. No credit is allowable for the portion of the cost of any property taken into account under Code Sec. 179 (expensing).

The portion of the alternative motor vehicle credit attributable to vehicles of a character subject to an allowance for depreciation is treated as a portion of the general business credit. The remainder of the credit is a personal credit that may offset the excess of the regular tax—reduced by certain credits—over the tentative minimum tax.

There is a limitation on the number of qualified hybrid motor vehicles and advanced lean-burn technology motor vehicles sold by each manufacturer of such vehicles that are eligible for the credit. Taxpayers may claim the full amount of the allowable credit up to the end of the first calendar quarter after the quarter in which the manufacturer records its sale of the 60,000th hybrid and advanced lean-burn technology motor vehicle. Thereafter, the credit is reduced and or eliminated.

The alternative motor vehicle credit applies to vehicles placed in service after 2005 and before different dates that vary with the type of alternative power vehicle, with 2010 as the earliest termination date.

SETTING UP A SYSTEM OF ACCOUNTING CONTROLS ALLOWS OVERSIGHT

Analyzing financial statements can be a complex and difficult process. Behind the numbers is a set of controls and systems that, if working correctly, feed appropriately into the financial statement and allow for efficient oversight.

When these controls break down, review takes more time and mistakes may be costly to dealers. Having a good understanding of the numbers behind the financial statement and providing for the proper internal controls within the dealership allows the dealer to focus on the key auto retailing issues.

In general, continually checking the detail of all assets and liabilities—as well as maintaining oversight of all financial functions by dealership personnel—is a good foundation to proper controls. The following is a summarized checklist of controls that can help dealers safeguard against future problems:

Someone other than the person responsible for the collections, receipting or depositing of cash should prepare the bank reconciliation. The dealer or other management should review the bank reconciliation.

A computer generated report of daily cash receipts should be utilized. Management should periodically review cash receipts. After hours, receipts should be written in a manual book so that only authorized personnel can produce a computer generated receipt.

The dealer should be the last signature reviewing the supporting documents for each check, if dual signatures are required. Dual authorized signatures should be required on checks that exceed a predetermined amount.

The person who opens the mail should not receipt or receive cash and checks. In addition, the person reconciling the over the counter receipts should be independent of cashiering. Each month, management should review accounts receivable schedules.

Purchase orders should be prenumbered and used for every purchase. Management must authorize all purchase orders. Monthly vendor statements must be reconciled to the accounts payable schedule. Checks written to accounts payable vendors must be matched to the open invoices prior to processing.

For more information on instituting a system of accounting controls in your dealership, contact your local ATA member firm.